

State of Customer Experience in Distribution



Customer Experience (CX) has emerged as a critical differentiator for distributors looking to remain competitive and drive sustainable growth. As digital technologies advance and customer expectations shift toward more personalized and seamless interactions, distributors must prioritize customer experience as a strategic imperative.

This report explores the importance of customer experience and the impact of improved customer experience on customer satisfaction, loyalty and overall business success.



What is Customer Experience?

To effectively manage and improve customer experience, distributors must first develop a deep understanding of what it is and how it is measured. Customer experience is not the same thing as customer service. At its most basic level, it can be defined as the sum of interactions and experiences a customer has with your company across all touchpoints and channels. It's the impression you leave them with after the interaction is over. It's also an important driver of profits, affecting the longevity of your company and growth over time.

Customer experience stretches across every interaction from initial contact to post-sale – even those your customer has with your channel partners. Suppliers and third-party delivery drivers can make or break the experience and influence a customer's perception of your business. Customer experience also includes the technology they interact with and your ability to personalize their experience, online and off. For example, when your reps answer the phone, they need to know who they're talking to before they answer — and we don't just mean their name.

The Loyalty Effect

The impact of customer experience cannot be overstated. Studies have consistently shown that companies with strong customer experience enjoy higher levels of customer satisfaction, loyalty and advocacy. These positive outcomes translate into tangible business benefits, such as increased revenue, market share and customer lifetime value. When customers have more choices and lower switching costs than ever before, customer experience can be a differentiator. We extrapolated data for a fictitious distribution company to show the impact of loyalty.

Baseline Year

	New	Retained	Results from New/Retained	Lost
# Accounts	100	400	500	75
Avg. # Trans.	15	30	27	10
Tot # Trans.	1500	12000	13500	750
AOV	\$1,100	\$2,500	\$2,344	\$800
FY Sales	\$1,650,000	\$30,000,000	\$31,650,000	\$600,000
GM%	33%	31%	31.1%	31%
GMS	\$544,500	\$9,300,000	\$9,844,500	\$186,000

In this model, we ran numbers showing a 6% growth in sales and profitability.

Baseline

Sales	\$1,875,000	6%
GM\$	\$581,250	6%

But what if the distributor focuses on delighting customers more through personalization and better capabilities? What happens if you focus on customer acquisition, losing fewer customers and getting more out of existing customers with good marketing and improved customer satisfaction? What's the effect?

Even small customer experience improvements yield significant ROI. In the example below, a distributor increased net new accounts by just 20 per year and the average number of transactions by two for new customers and one for existing customers. These and other changes make a big difference in financial performance, especially when accompanied by a modest improvement in account defection.

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Ultimately, the net effect of small, incremental changes in how we manage customer experience can double sales growth. Instead of 6% with those modest changes, you grow 13%.

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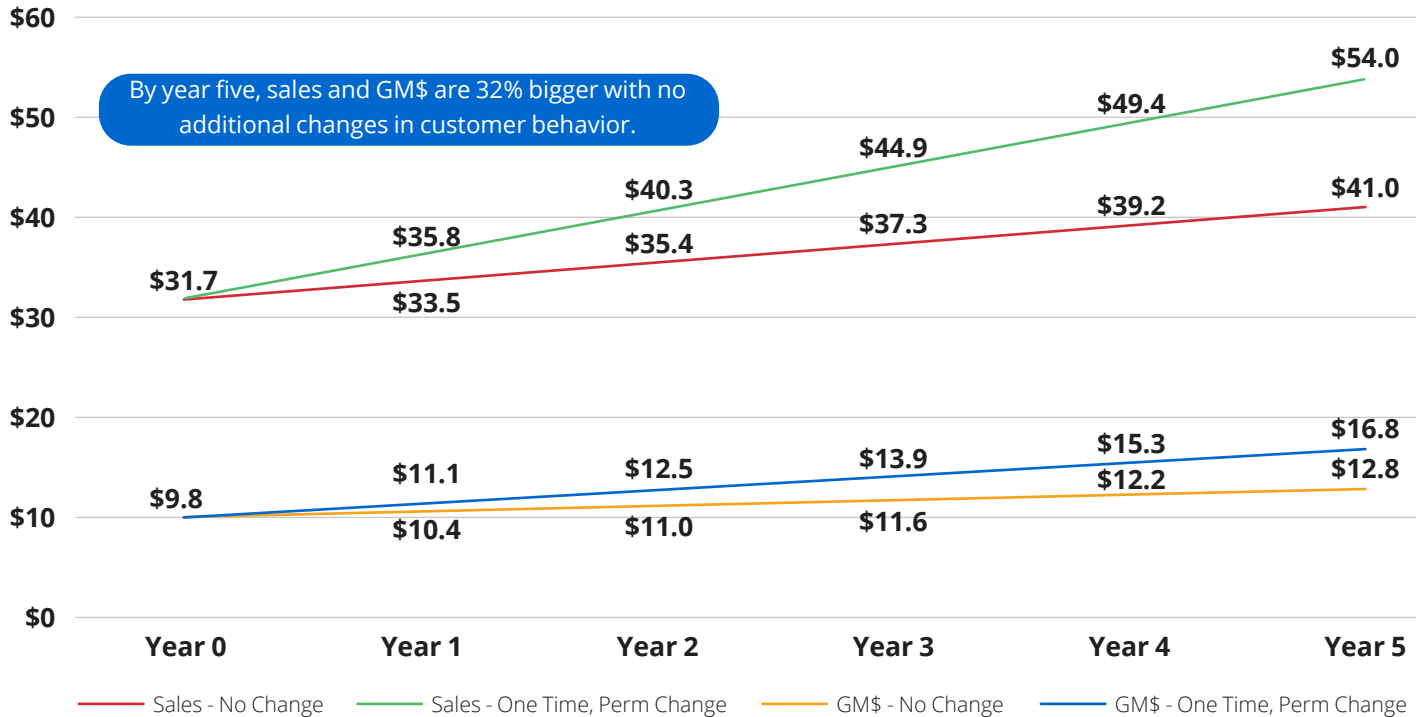
With Changes

Sales	\$4,114,000	13%
GM\$	\$1,265,800	13%

Difference in Sales	\$2,239,000	119%
Difference in GM\$	\$684,550	118%



Five-Year Growth in Sales/Gross Margin Dollars One-Time, Permanent Change in Customer Behavior



Despite the potential impact, at most distribution companies, no one is in charge of customer experience or customer lifecycle. But they should be.

Current State of Customer Experience in Distribution

[Most distributors lose up to 30%](#) of their customers every year and they usually don't know why.

Most distributors do not have a customer experience measurement system in place. Perhaps every two years they run a customer satisfaction survey, but it's not a real-time measurement affecting near-term results. Distributors have also usually not set customer lifecycle goals.

This undermines efforts to grow the business. After all, what's more important than attracting new customers and satisfying and keeping the ones you have?

Distributors should appoint dedicated customer experience leaders who can drive initiatives, set and own customer lifecycle goals, and implement consistent measurement systems.

What Really Drives Customer Satisfaction?

Most distributors have a good handle on operating metrics. Operational metrics are concrete and internal; distributors track them religiously. But looking at these metrics does not help you understand how customers rate you vs. your competitors. That's why, even if you think you're doing well operationally, your competitor may still win.

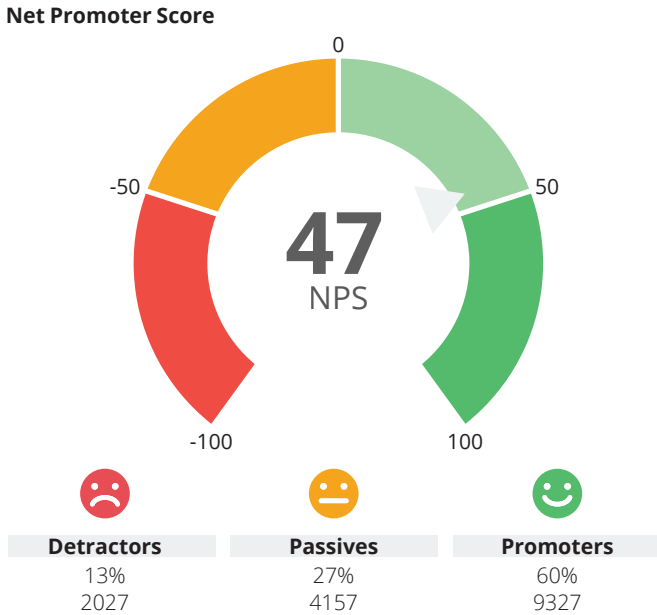
To better understand what really drives customer satisfaction, we looked at more than 18,433 responses from 30 distributors from February 2023 to May 2024. We used our [Customer Experience RX tool](#) to analyze the survey data and prescribe steps to improve the customer experience. CX-RX provides Net Promoter Score® (NPS®) rankings to quantify customer loyalty in a useful way.

Calculating NPS is straightforward. Distributors ask customers if they would recommend the company, product or service to a colleague or friend. On a 10-point scale, **promoters** rate your company a 9 or 10. Any respondent who rates you a 0-6 is a **detractor**. Passives respond with a 7 or 8. NPS is simply the percentage of promoters minus the percentage of detractors (passive scores are discarded).

Note that NPS is just a raw score of overall customer experience. It's like getting your temperature checked: It may reveal the need for diagnostic work, but it won't catch all problems in your organization. You have to go deeper for that.



Overall NPS* for All Industries/Customers



Segment	Count	% of Total	Overall NPS	Place
Distribution	629	3%	66	1 st
Services	1032	6%	64	2 nd
Retail	2343	13%	55	3 rd
Manufacturing	3808	21%	46	4 th
Other (Inc. Govt)	1522	8%	44	5 th
Institutional	1887	10%	40	6 th
Unknown	1308	7%	39	7 th
Construction	5904	32%	36	8 th
	18433	100%	47	

*Overall NPS is not a weighted avg. or average of respondents or segments.

Our research did that. We looked closely at the areas where distributors affect positive customer experiences – driving an increase in NPS. The good news for many distributors is that in an increasingly digital world, the people factor is most important to driving greater satisfaction.

Distribution Strategy Group goes beyond performance ratings and also asks customers to rank various factors on importance. After all, it’s much more important to perform well on factors that are important to customers than those that are not. To understand how to improve your scores, you need to understand the most important drivers of satisfaction to customers – not just your performance.

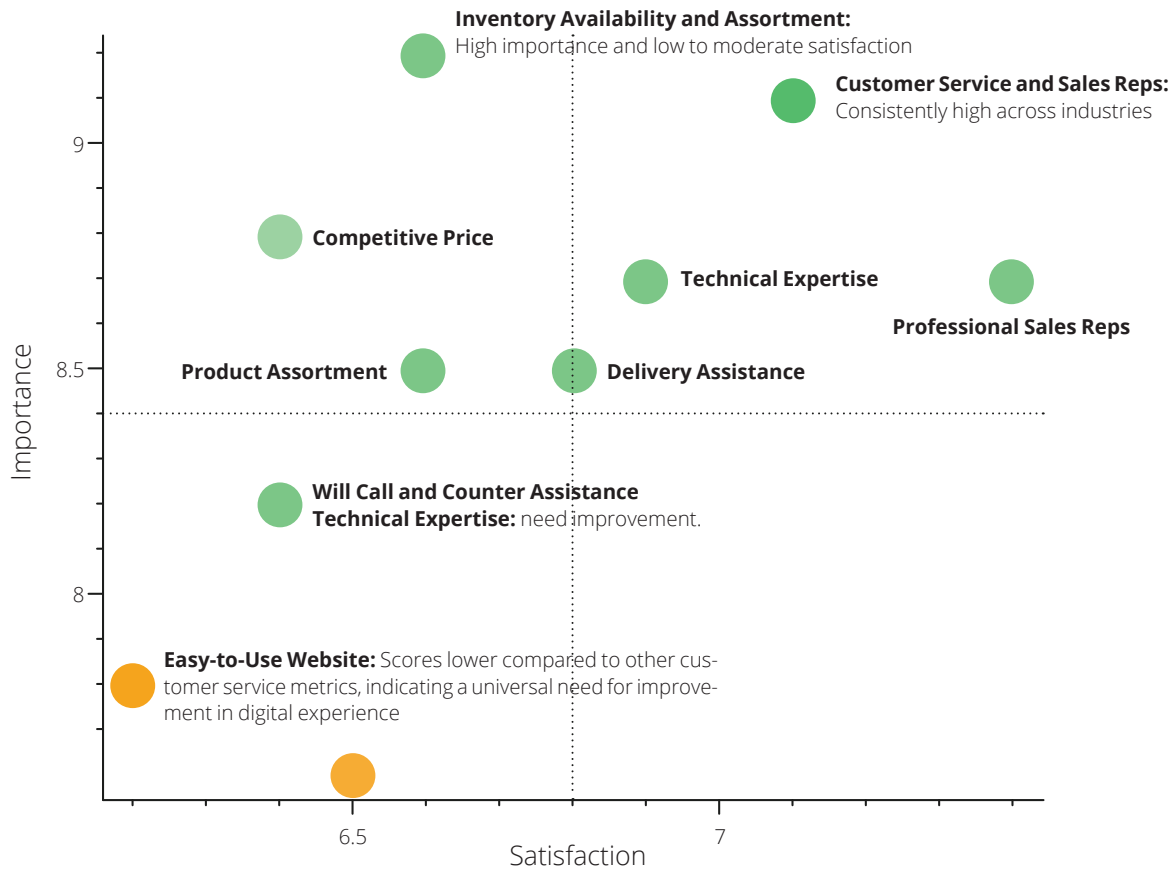
DSG has discovered that the top three drivers of improvements in satisfaction for distributors – factors that move the needle – are all delivered by a field or phone rep:

- Professional sales reps
- Customer service
- Technical expertise

Less impactful are assortment, delivery, easy-to-use website and even availability. Note: They are still important to the customer, but it’s hard to differentiate around these factors. Changing them won’t change how a customer feels about you as a supplier – at least not as much as improving the way you serve them with your people.

Customer Experience Insights – Overall

The chart shows the importance and satisfaction levels of various factors, as reported by distributors' customers.



What good sales reps and other customer-facing team members do well is bring expertise to the table. They help customers get what they need. They're doing things a website can't replicate, like going above and beyond for a customer to replace unavailable products, offering brand application knowledge and advocating for faster fulfillment. A trusted advisor who solves customer problems is highly appealing.

While generally the above is true across industries in terms of what affects the NPS, each customer base has their differences in what they find important.

Construction: Contractors operate in hours and minutes, so having the right inventory and good will call service is very important.

Manufacturing: Downtime costs manufacturers millions of dollars. Inventory availability is critical to preventing production delays.

Institutional: This is the most digital-savvy group of the bunch. They are more sensitive to pricing and want a better assortment to make ordering easier.

It's also important to consider the different personas you are selling to. Just like with industries, functions within your customer's organization have different needs and view you differently.

Compare

Job Function	#	%	NPS
Finance	2606	14%	49
Operations	5131	28%	49
Other	1527	8%	45
Sales and Marketing	1222	7%	60
Senior Management	3573	19%	35
Unknown	4374	24%	41

Ask yourself:

- Is the decision-maker complaining about or recommending your company to other potential customers?
- Even if you're doing great with your buyers, is the finance person on the other end of the transaction unhappy with your billing processes?
- How much influence does each individual have on the vendor selection process?
- Who signs the major account agreement?
- Are you targeting the right value proposition to the right decision-maker?

Distributors may be neglecting an entire universe of potential relationships that could lead to lost business.

Here is an example of the differences in what is valued by role:

Operations: Inventory availability tops their list of important attributes. They need “stuff” to keep things running. Uptime is critical to them.

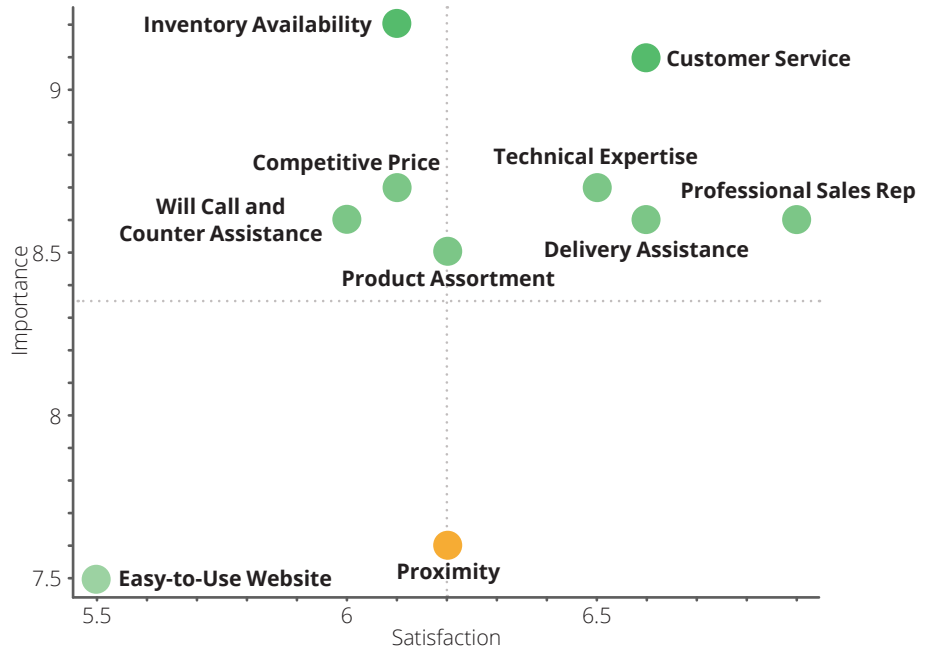
Finance: Many distributors may not think of finance as an important role to please. However, if the price isn't correct or right, they will be less satisfied with the distributor.

Senior Management: These are the harshest critics. They place a high value on inventory availability due to its direct impact on revenue, their customers' satisfaction and operational efficiency.

Customer Experience RX can correlate the NPS score to job function. For example:

Customer Experience Insights – Overall

- Scores reveal different priorities vs. other customer groups
- Overall, lower scores than other job functions for their distributors
- Very high scores for importance of inventory availability but mediocre score
- Customer service and sales reps are a strength



Customer Experience by Customer Size

There are also differences in what matters to your customers by their size.

Small and Medium Customers

- High scores for distributors:
 - Customer Service
 - Technical Expertise
 - Sales Reps
- Needs Improvement:
 - Availability, Price, Assortment
 - Will Call and Counter Assistance

Large Customers

- High scores for distributors:
 - Customer Service
 - Technical Expertise
 - Sales Reps
- Lower Scores for:
 - Pricing Satisfaction is 6.5
 - Inventory Availability

Compare Rated by

Customer Size	#	%	NPS
Large	3488	19%	55
Medium	4335	24%	45
Small	6070	33%	42
Unknown	4540	33%	40

It makes sense that most distributors focus heavily on their large customers, even if they have better margins on small to medium-sized accounts. The experience may feel better in person, which shows up in the scores.

Where it starts to fall apart is with small and medium-sized customers who want better prices, availability and assortment. They need a better will-call experience. While you may be doing well with them regarding overall service, you must ensure high satisfaction levels with these customers to grow them into the larger account category. This requires a greater focus on customer lifecycle.

Best Practices in Customer Experience

Superior customer experience requires a combination of customer-first culture, engaged team members, direct customer insight and a willingness to confront the “ugly stuff.” This requires more than just policies and procedures. It demands fundamental shifts.

1 Employ journey mapping to see where you stand across all customer touch points. The secret sauce is to understand how your customers buy. Companies must simplify customer interactions and leverage customer insights to remain competitive. Identify pain points and opportunities for improvement, and redesign processes to eliminate friction and create seamless experiences. For example, a distributor may streamline its order fulfillment process to reduce lead times and improve order accuracy, or it may implement a more flexible returns policy to accommodate customers’ changing needs.

2 Collect customer experience data. Customer experience data should drive your operational excellence projects. Set clear KPIs, quality controls and visual dashboards to drive continuous improvement.

3 Invest in the customer experience. Having someone in the company own the customer lifecycle model is critically important. Your efforts to improve customer experience must permeate your organization. It’s hard work, but losing customers is harder. Cross-functional collaboration and communication is key.

4 Start small and build from there. Small improvements in customer experience will compound over time. Follow the data to fix the most critical problems first.

5 Benchmark customer experience. You can't do this by running a survey once every three years. Improving customer experience is an ongoing process that must be tied to an understanding of what your customers want from you and a systematized effort to give it to them.

Building a Customer-Centric Culture

Leadership plays a critical role in establishing and reinforcing customer-first values throughout the organization. Leaders must consistently communicate the importance of customer experience, model customer-centric behaviors and make decisions that prioritize the needs of customers over short-term business goals.

They must also ensure that customer experience is a key consideration in strategic planning and resource allocation decisions.

Finally, cross-functional collaboration and communication are essential. Distributors should establish clear roles for each team involved in the customer journey and create processes and systems for sharing information and coordinating activities. Regular cross-functional meetings, shared dashboards and reporting, and integrated technology platforms can ensure that everyone is working toward a common goal of exceptional customer experience.

Make the Business Case

The cost of doing nothing in the long run can degrade your customer experience. Here's how you can frame the business case for a concerted and dedicated effort around customer experience:

- Frame customer experience investments in terms of their impact on your P&L using the customer lifecycle model.
- Quantify the cost of status quo: lost sales, excess returns and higher service costs.
- Align your customer experience initiatives to strategic goals like gaining market share, increasing wallet share and expanding to new markets. This ensures you are focused on delivering value.
- Benchmark customer experience metrics to best in class to show improvement potential.
- Use pilots and iterative rollouts to demonstrate the value of your customer experience investments in a controlled manner. Build momentum and adjust as needed to optimize your outcomes.

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